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January 15, 2002

EXECUTIVE SECRETARY

VIA HAND DELIVERY

David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37238

Re: *Complaint of XO Tennessee, Inc. Against BellSouth
Telecommunications, Inc.*
Docket No. 01-00868

Dear Mr. Waddell:

Enclosed is the non-proprietary portion of BellSouth Telecommunications, Inc.'s ("BST's") Responses to XO's 2nd Data Request in the above-referenced matter. Copies are being provided to counsel of record.

Additionally, BST's would like to take this opportunity to address its Response to Staff Request No. 1, which states, in part, that "[t]he entire cost of running [the BellSouth Business Select] program is charged and accounted for as a non-regulated expense to BellSouth companies that participate." This statement was directed toward the costs associated with the points that are awarded under the program and, in that regard, the statement is accurate -- BST does, and always has, recorded these costs as non-regulated (although as a reduction of revenue, not an increase in expenses). BST has since learned, however, that the *administrative* costs incurred by BST in participating in BellSouth Select loyalty programs were allocated between regulated and non-regulated expenses.

While under the cost-causative approach of BST's Cost Allocation Manual these costs were appropriately allocated to both regulated and nonregulated expenses, BST has now chosen to adopt a more conservative approach and account for all of these administrative costs as non-regulated expenses. As a

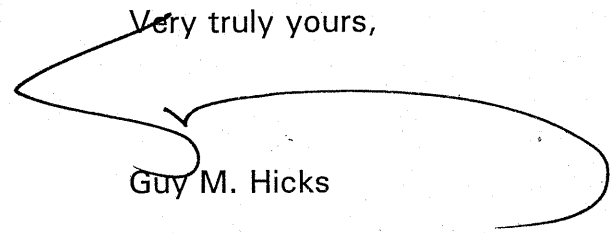
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result, BST has taken steps to ensure that all administrative costs incurred by BST as a result of its participation in the BellSouth Select loyalty programs during and after 2001 are recorded as non-regulated expenses.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "Guy M. Hicks". The signature is written over the typed name.

Guy M. Hicks

GMH:ch
Enclosure

CERTIFICATE OF SERVICE

I hereby certify that on January 15, 2002, a copy of the foregoing document was served on the parties of record, via the method indicated:

- ☒ Hand
- ☐ Mail
- ☐ Facsimile
- ☐ Overnight

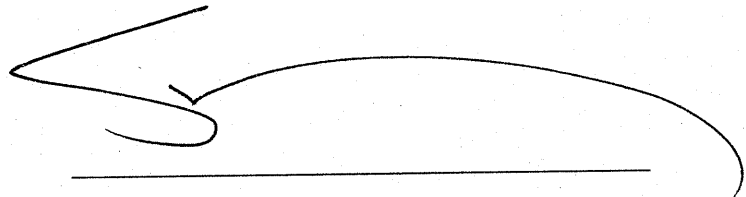
Henry Walker, Esquire
Boult, Cummings, et al.
P. O. Box 198062
Nashville, TN 37219-8062

- ☒ Hand
- ☐ Mail
- ☐ Facsimile
- ☐ Overnight

Chris Allen, Esquire
Office of Tennessee Attorney General
P. O. Box 20207
Nashville, Tennessee 37202

- ☐ Hand
- ☒ Mail
- ☐ Facsimile
- ☐ Overnight

Nanette S. Edwards, Esquire
ITC^DeltaCom
4092 South Memorial Parkway
Huntsville, AL 35802

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REQUEST: List every Tennessee customer by name, address, telephone number, who has joined a BellSouth Select program, received any good, service, or other item of value, including discounted services from BellSouth Select, Inc. since the creation of BellSouth Select, Inc. Include a description of the item received and an estimate of the monetary value of the item.

RESPONSE: Attachments 1.A (Tennessee Consumer Select Members 1999), 1.B (Tennessee Consumer Select Members 2000), and 1.C (Tennessee Consumer Select Members 2001) contain responsive information regarding BST residential customers enrolled in a BellSouth Select program. These attachments are being provided under separate cover, and they are protected by the terms of the Protective Order entered in this docket. Points were not awarded under the Consumer Select program. As a benefit of being in the program, members could have received one or more of the following:

- a coupon book with restaurant and retail coupons (buy one, get one free; x% off a purchase, etc.).
- BellSouth Select Newsletter describing BellSouth offerings (this feature was discontinued 8/00);
- BellSouth Select Living magazine containing articles about the South, decorating, cooking, BellSouth products, etc;
- members could call a toll free number and ask home-related repair questions to qualified tradesmen;
- Consumer Select members that had BellSouth Mobility service could receive Roadside Assistance (for which BellSouth Mobility typically charged \$4 per month) for \$1 per month (this feature was discontinued 12/31/00);

- 25% discount on BellSouth Mobility/Cingular accessories.
- 20% off BellSouth home phone equipment (i.e., PowerTouch phone, Caller ID box, 2-line phone, etc.).
- Access to BellSouth's "All-in-One" call center;
- 210 pairs of tickets to the movie "Pearl Harbor" were mailed to Tennessee Consumer Select members.

The monetary value of these items depends on the manner and extent to which a given residential customer used a given item.

Many business customers that are members of a BellSouth Select, Inc. ("BSSI") program have locations in several BST states. Such business customers typically designate one location to which they want all information regarding BSSI programs sent. Attachment 1.D (Tennessee Business Select Redemptions) is responsive information regarding BST business customers that have designated a Tennessee address for receipt of such program information and that have redeemed points under a BSSI program. This attachment is being provided under separate cover, and it is protected by the terms of the Protective Order entered in this docket.

BST objects to this request to the extent that it purports to seek any additional information on the grounds that compliance with the request would be unduly burdensome. BST further objects to this Request to the extent that it is intended to address "BellSouth" co-branded credit cards on the grounds that such information is not reasonably calculated to lead to the discovery of any evidence that is relevant to the claims set forth in the Complaints (as amended) that are the subject of this proceeding.

REQUEST: Provide copies of all documents addressing whether a BellSouth Select program complies with federal and state regulatory requirements.

RESPONSE: BST objects to this request on the grounds that the documents that are responsive to this request are protected from discovery by the work product doctrine and/or the attorney-client privilege.

REQUEST: (a) Identify all individuals who are or have been responsible for determining whether or not a BellSouth Select program complies with federal and state regulatory requirements, and (b) describe the responsibility of each named individual.

RESPONSE: The initial advice concerning federal and state regulatory requirements applicable to a BellSouth Select loyalty program was coordinated by and provided under the direction of attorney David G. Richards, now a member of the Cingular Wireless LLC Legal Department. General operational and ongoing legal and regulatory advice concerning the operations of BellSouth Select, Inc., was coordinated by and provided under the direction of attorney Gregory D. Artis, now Senior Counsel – Labor and Employment in the BellSouth Legal Department. On March 1, 2001, Hubert H. Hogeman, Chief Counsel – Marketing, in the BellSouth Legal Department, assumed responsibility for coordinating and directing the general operational and ongoing legal and regulatory advice for BellSouth Select, Inc. Either of these attorneys may have asked various attorneys and regulatory personnel to participate in the legal and regulatory analysis for a given Select loyalty program.

REQUEST: On what date did BellSouth Select begin allowing a customer to redeem Select points for credit which could be applied to both regulated and non-regulated charges on the customer's bill.

RESPONSE: BST objects to and does not agree with the characterizations set forth in this request. Without waiving this objection, from the "start date" of the programs discussed in response to XO's 2nd Data Requests, Item No. 6, through the earlier of the end date of a given program or the end of October 2001, members of these programs were allowed to redeem points for credit on their BellSouth bill. The amount of these credits were intended to be less than the customer's aggregated non-regulated spending over the course of the customer's membership in the program. Beginning November 2001, the credit on the bill option was eliminated.

REQUEST: If not included in the responses to questions 2 and 3, (a) provide all documents addressing whether the offer described in Question 4 complies with state and federal regulatory requirements and (b) the names and job descriptions of all persons involved in making that determination.

RESPONSE: Please see responses to Requests Nos. 2 and 3.

REQUEST: Describe in detail each of the marketing or promotional plans offered by BellSouth Select, Inc., to customers in Tennessee since the creation of BellSouth Select, Inc. The description should include, but not necessarily be limited to, the following information:

- a. The beginning and ending dates, if applicable of each plan.
- b. The customers or potential customers to whom each plan is (or was) targeted and all applicable criteria by which customers or potential customers are (or were) selected.
- c. The number of customers who agreed to participate in each program and the number of access lines controlled by those customers.
- d. A description of all goods, services and benefits, which customers may receive through participation in each program and an explanation of how customers may receive those goods, services, or benefits.

RESPONSE: BellSouth objects to providing the "number of access lines controlled by those customers" as requested in subsection (c) on the grounds that it would be unduly burdensome to do so. Since its inception, BellSouth Select, Inc. has developed/managed programs targeted to both Consumer and Small Business customers. The following details the beginning and ending dates of each program as well as the applicable number of Tennessee customers:

Program:	Start Date:	End Date:	TN Members
Consumer Select	3/99	12/01	40,562
Select Business	3/99	5/00	646
Select Gold	9/99	5/00	720
Select Silver	6/00	9/01	331
Select Platinum	6/00	On-going	10,176

Consumer:

3/99 - BellSouth Select Consumer launched. Customers were targeted based on their BST and BellSouth Mobility spend. Customers with a combined monthly spend of at least \$70 were invited into the program. As described in more detail in BST's Response to XO's 2nd Data Requests, Item No. 1, program features have included: coupon book, BellSouth Select Living Magazine, BellSouth Select Newsletter, HomeOwner Hotline service, 25% discount on BMI accessories, 20% discount on BellSouth home phone equipment, and discounted roadside assistance.

1/00 - Combined spend threshold to qualify for BellSouth Select Consumer increased to \$125 per month. Program benefits remained the same.

1/01 - Monthly spend threshold to qualify for BellSouth Select Consumer decreased to \$50 of BST spend (BellSouth Mobility spend criteria was removed from qualification criteria); in addition, HomeOwner Hotline and discounted roadside assistance benefits were removed from the program. Program ended 12/31/01.

Small Business:

3/99 - BellSouth Select Business launched. Program was trialed in 5 markets (none of which were in Tennessee) and targeted: (1) BST small business customers with a monthly BST spend of at least \$500 (including at least one non-regulated service) and (2) BellSouth Advertising and Publishing (BAPCO) major account customers. Program members earned 1 point per dollar of BST and BAPCO spend. Points were redeemable for credit on BellSouth bill (2000 points were redeemable for a \$50 credit).

Members received quarterly point statements reflecting their quarterly point earnings; members could redeem points via mail, fax or phone. Late in 1999, this program was expanded to include Tennessee markets.

9/99 - BellSouth Select Gold launched. Program targeted small business customers with a monthly BST spend of at least \$250 (including at least one non-regulated service). Customers enrolled in BellSouth Select Gold earned 1 point per dollar of BST spend (no points were issued on BAPCO spend). Points were redeemable for credit on BellSouth bill (2000 points were redeemable for a \$50 credit). Redemption options were expanded to include items such as prepaid phone cards and phone equipment for both the Select Business and Select Gold programs.

6/00 - BellSouth Select Platinum launched. The BellSouth Select Platinum program was targeted to BellSouth small business customers with a monthly BellSouth spend of at least \$250 (including at least one non-regulated service). BellSouth Select Platinum members earn 1 point per \$1 of BST spend and 1 point per \$3 of BAPCO spend. Existing Business Select members and Select Gold members were upgraded to the BellSouth Select Platinum program upon program launch. Redemption options were the same as described for BellSouth Select Gold.

6/00 - BellSouth Select Silver launched. The Silver program targeted BellSouth small business customers with a monthly BellSouth spend of \$100 to \$250 (including at least one non-regulated service). Silver members received a 500-point enrollment bonus and additional bonus points for the purchase of certain products. Redemption options were the same as described for BellSouth Select Gold. Silver members that increased their monthly BST spend to \$250 or more were automatically upgraded to BellSouth Select Platinum.

9/01 - Monthly spend criteria for BellSouth Select Platinum was lowered to \$100. Upon implementation of change, existing Silver members were upgraded to the BellSouth Select Platinum program. Other modifications included the addition of several products such as Palm Pilots, etc., to the redemption options as well as the ability for members to request redemption of points on line.

1/1/02 - The BellSouth Select Platinum program is the only Select program available to BellSouth customers.

See the previously provided marketing materials for additional descriptions of the program benefits and/or redemption options. BST objects to this Request to the extent that it is intended to address "BellSouth' co-branded credit cards on the grounds that such information is not reasonably calculated to lead to the discovery of any evidence that is relevant to the claims set forth in the Complaints (as amended) that are the subject of this proceeding.

REQUEST: In your response to the first set of Interrogatories, you state that, "BellSouth Corporation agreed to fund the administration of this program?" What entries are recorded on BellSouth Corporation's books to recognize the funding of this program? Include accounts, account titles and related entries to affiliates such as allocating the funding to affiliated operations.

RESPONSE: For working capital/cash flow purposes, BellSouth Select, Inc. (BSSI) is funded by BellSouth Corporation. Ultimately, the participating BellSouth entities (currently BST and BAPCO) pay for the administration of the program through the billing described below.

As administrative expenses are incurred by BSSI they are recorded in various expense accounts on the BSSI books. In 2001 and prior years, the total of these expenses were transferred/billed to BellSouth Corporation on a monthly basis (BSSI credits Account No. 49999, Other Miscellaneous Revenue and BellSouth Corporation debits Account No. 69943, Professional Services). BellSouth Corporation then billed these administrative expenses to the applicable BellSouth entities. BellSouth Corporation credited Account No. 49105, General Services Revenue and BST currently debits Account No. 6613, Product Advertising Expense for these administrative costs. Prior to 2001, BST debited Account No. 6623, Customer Services Expense for the costs.

Starting in 2002, BSSI will bill BST and BAPCO directly, rather than first billing BellSouth Corporation in the manner described above. The entries by BSSI and BST will be the same as described above: that is, BSSI will credit Account No. 49999, Other Miscellaneous Revenue and BST will debit Account 6613 Product Advertising Expense. No billing entries will be made on BellSouth Corporation's books.

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Tennessee Regulatory Authority

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Item No. 8

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REQUEST: You also state that account #5280.9920 on BST's books is debited according to revenue ruling dated 11-19-99. The FASB defines revenues as "inflows or other enhancements of assets of an entity or settlement of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations." Why is a revenue account debited when there is an outflow not an inflow to assets (i.e., cash)? Therefore, shouldn't the amount be charged to an expense account?

RESPONSE: The cost of the "points" is accounted for as contra-revenue (debited to a revenue account) in order to be in compliance with Generally Accepted Accounting Principles. GAAP requires the costs for "points" associated with loyalty programs to be journalized as a reduction of revenues. Revenue accounts normally increase with "credit" entries and decrease with "debit" entries, therefore the entry discussed above (a "debit" to the contra-revenue account) reduces revenues in accordance with GAAP.

As information, the administrative costs associated with this program are recorded as "debits" or increases to expenses. (See XO's 2nd Data Requests, Item No. 7)

REQUEST: Related to Question 7, if the amount is charged or not charged to an expense account on BST's books, wouldn't this affect the amount of expenses charged to regulated and non-regulated operations through a Part 64 allocation process. If not, why not? Provide a detailed explanation and support for your conclusions.

RESPONSE: BellSouth objects to this request on the grounds that it is vague and confusing. Without waiving this objection, BellSouth responds that generally, the Account to which a transaction is journalized (charge/debit or credit), along with other identifiers as described in BST's Cost Allocation Manual, will determine whether the transaction is identified as regulated, non-regulated, or an allocation between the two.

Both Revenues and Expenses are identified as regulated or non-regulated within the Part 64 process. Revenues are directly assigned to either regulated or non-regulated. Although expenses may be allocated as indicated in the Request, an expense may also be directly assigned.

As discussed in XO's 2nd Data Requests, Item No. 7, for the year 2001 forward, the administrative cost of the BSSI programs are recorded by BST in Account 6613, Product Advertising Expense. These BSSI originated expenses in Account 6613 are directly assigned to non-regulated through the Part 64 process.

As information, the contra-revenues discussed in XO's 2nd Data Requests, Item No. 8 were also directly assigned to non-regulated operations through the Part 64 process.

REQUEST: Provide the account balances by month from 1999 to present for account #119.110 on BST's books for Tennessee operations for the same period from BSS.

RESPONSE: Below are the monthly balances in Account 1190.1100 on BST's books for Tennessee operations for the period from January, 1999 through November, 2001.

1999

January	--
February	--
March	\$ 22,027.85
April	1,944,473.16
May	83,567.85
June	111,607.85
July	128,867.85
August	169,695.41
September	212,260.14
October	239,380.14
November	57,082.67
December	77,067.67

2000

January	\$ 46,126.86
February	59,520.65
March	87,771.86
April	127,171.86
May	132,145.46
June	219,392.22
July	173,946.46
August	183,915.77
September	131,644.76
October	85,003.60
November	77,715.58
December	78,591.65

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2001

January	\$ 82,546.07
February	82,437.94
March	123,947.94
April	139,610.00
May	101,210.85
June	4,390.10
July	2,775.87
August	(2,186.48)
September	159,963.83
October	313,215.44
November	78,487.78

REQUEST: Why is the corporate loyalty program not accounted for solely on BST's books?

RESPONSE: BellSouth affiliates other than BST may participate in the program and, as described in more detail in BellSouth's response to XO's 2nd Data Requests, Item No. 7, BST only accounts for its share of the costs on its books.